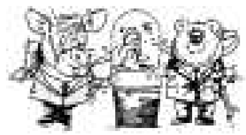
ADVISOR

TEACHERS, EMPLOYEES, PUBLIC, STATE POLICE AND JUDICIAL

Vol. XXXII — No. 8 SERVING OVER 300,000 MEMBERS February 2007

Taxpayers Contribute 19.8% of Last Year's Revenue!



Retirement Systems of Alabama Revenue Resources*

FY October 1, 2005 - September 30, 2006

	TRS	ERS	JRF	Combined
Revenue (in Millions)				
Employee	$ 281.5	$ 187.1	$ 2.5	$ 471.1
Employer	$ 434.2	$ 241.7	$ 8.9	$ 684.8
Investment Income	$ 1,582.4	$ 703.6	$ 20.9	$ 2,306.9
Total	$ 2,298.1	$ 1,132.4	$ 32.3	$ 3,462.8
Revenue (Percent)				
Employee	12.2%	16.5%	7.7%	13.6%
Employer	18.9%	21.3%	27.6%	19.8%
Investment Income	68.9%	62.2%	64.7%	66.6%
Total	100.0%	100.0%	100.0%	100.0%

*State plus public and quasi-public agencies

(Editor's note: Investment Income is net all losses.)

A Fourth Positive Year — After Two Bad Ones

The Retirement Systems of Alabama
Schedule of Investment Performance
Fiscal Year Ending September 30, 2006

Total Portfolio	1-YEAR	3-YEARS	5-YEARS	10-YEARS
Teachers' Retirement System	8.82%	10.26%	7.60%	7.77%
Employees' Retirement System	8.37%	9.80%	7.10%	7.58%
Judicial Retirement Fund	9.12%	10.12%	6.01%	7.41%

Funding COLAs

By David G. Bronner

For many years, retirees and active employees have become accustomed to regular Cost-of-Living Adjustments (COLAs) granted by the Alabama Legislature. The RSA has in large part funded these COLAs.

During the 1990s when the financial markets generated excess revenues to fund these increases, the Retirement Systems were at or above 100% funding. The funding of these COLAs by the RSA worked fine. However, after the 2000-01 market crash in which the RSA and every other pension fund lost 25% or more of their assets, COLAs have had a severe, negative effect on the actuarial soundness of these plans. When I became CEO of the RSA in 1973, the RSA was only 25% funded. It has taken a major joint effort of Alabama Governors, Legislators, and Associations to bring funding from 25% to over 100%, but it is my responsibility to maintain fiscal soundness. Since 2000, the RSA has gone from 102% funded to 83% funded. The national average is 86% funded.

A large part of this decrease is attributable to the: 2000 COLA — 4%, 2002 COLA — 3%, 2005 COLA — 4%, and 2006 COLA — 7%. The cost of these COLAs exceeds $1.8 billion, and when paid over the 20-year funding period will cost Alabama taxpayers over $3.2 billion. The total of 18% is just too much of an increase. Since 2000, Texas and other states have suspended all retiree COLAs until their systems again reach 100% funding.

Further compounding the problem is the growth in the number of retirees. Based on current retirees and the number of active members eligible for or close to retirement eligibility, the RSA expects the number of state and education retirees to double in the next ten years from 80,000 to 160,000 retirees, while active employees will likely remain constant at approximately 187,000 employees. This trend indicates that future COLAs will be increasingly more expensive and difficult to fund.

The bottom line is that liabilities generated by COLAs are growing faster than assets. Continuing on this course will eventually lead to the depletion of assets because COLAs are totally unfunded. What is the solution? Alabamians must ask the State

Continued on page 2

America's High Anxiety

By Mortimer B. Zuckerman, *US News and World Report*

"Our nation's core bargain with the middle class is disintegrating. We are into the fifth year of a relatively robust expansion, but millions are worse off. Exposed to greater risks in job security, they feel abandoned, left to fund their own health and retirement programs out of static or falling real incomes.

Resentment and envy are not normal characteristics of our society; we usually don't care how much the other guy makes as long as we feel we're getting a fair shake. Today, however, the middle class is not. Most of our economic gains have gone to people at the very top of the income ladder. Median income for a household of people of working age, by contrast, has fallen five years in a row. What's more, in a rapidly changing economy, Americans are losing their jobs, and while they often find new ones, the average pay is 17 percent below what they were earning before.

Tens of millions of Americans live in fear that a major health problem can reduce them to bankruptcy. They realize their families are one health crisis away from family hardship, which is a key reason for the pervasive feeling of personal and permanent insecurity.

This particularly affects American families. Marriage has always been a vital economic and social institution. Yet married people with kids are twice as likely to file bankruptcy as single adults or childless couples, and they're more likely to lose their homes than married couples without children or single adults. Why hasn't the two-earner family protected more Americans from the risk of financial disaster? Well, to most families, a second income is not a luxury but a necessity, as wages for men basically flattened out as women entered the workforce....

Think about what happens when one of two parents loses his or her job, and what happens afterward when families break apart.

Think about the fact that raising a child to the age of 18 will cost over $200,000 for a middle income family—and that doesn't even account for college tuition, now a required ticket for admission into the middle class....

IF THERE IS ONE SINGLE SOURCE OF RISK OUR POLICYMAKERS MUST TACKLE, IT IS HEALTH INSURANCE. We must not muddle on, a band-aid here and a band-aid there. We must find some way to provide universal health insurance, especially to cover all children. This is one of the critical reasons that Americans are nervous and no longer believe that the next generation will be better off….

Whichever party better focuses on healthcare will do a world of good for itself and the country."

A Special Deal

FOR RSA MEMBERS

Life is short! So enjoy the time the good Lord has given us and take advantage of the rates listed below and visit an RSA-owned hotel.

Ross Bridge	$79	Feb 14-19
Shoals	$69	Feb 3-6
The Grand	$79	Feb 1-6
		Feb 18-25
Prattville	$69	Feb 9-15
Opelika	$69	Feb 1-15

Book early because the rooms are limited at these special rates. These rates are not applicable to groups or conventions.

Code for all hotels: RABM, 800-228-9290

Funding COLAs

Continued from page one

Legislature to change the way COLAs are funded. When COLAs are enacted, the legislation must include an appropriation to cover the cost. The RSA knows that COLAs are important, but they are expensive as well. The state cannot and must not sacrifice the actuarial soundness of the Retirement Systems at the expense of retiree COLAs.

What does all of this mean in terms of future benefit adjustments? First of all, retirees and future retirees must adjust their expectations. The 7% COLA granted in 2006 increased the unfunded liability of the RSA by approximately $850 million. It is simply not realistic to expect state appropriations of that magnitude.

Future increases must be tailored to the funds available. For example, a $50 million appropriation could generate a **fully funded** COLA of:

- 0.45% of gross benefit on a permanent monthly basis ($7.57 average monthly increase), or
- 4.0% of gross benefit on a one-time annual basis ($807 average one-time payment), or
- $33 per year of service on a one-time annual basis ($825 average one-time payment).

This example shows that a funded one-time, lump-sum COLA would have a more meaningful impact than an extremely modest, permanent monthly increase. This is, however, for the retirees and the Legislature to decide. It is critical that any new benefits be fully funded at least until the Retirement Systems and the retirement benefits already promised are again 100% funded.

Be a pill

If you're a woman, a few minutes of pestering could save the life of the man you love. Men tend to conveniently forget to schedule their annual rectal exam, an embarrassing but brief little procedure that can detect early signs of prostate cancer. But an overwhelming majority of men told researchers they would set up and submit to the exam if their wives reminded them, a recent study by the Prostate Cancer Foundation discovered. "You may need to do a little nagging," says Mary-Ellen Taplin, M.D., of Harvard's Dana-Farber Cancer Institute. "It's worth it."

The Known Unknowns

Source: *The Economist*

CHICAGO

NEW RULES WILL FORCE STATE GOVERNMENTS TO COME CLEAN ABOUT RETIREMENT COSTS

The promises that politicians make to campaign donors and taxpayers are often good only till the next election. By contrast, the commitments they make to public employees—such as firemen, teachers and bureaucrats—are for life. America's state and local governments are struggling to meet pension and health-care obligations to their retired workers. So many of those governments are dreading a new accounting rule that will make them report clearly on the size of the problem.

The new rule, issued by the Government Accounting Standards Board (GASB) in 2004, went into effect on December 15, 2006. It requires public-sector employers to treat their health-care promises to workers the same way they already handle their pension obligations: by reporting on the total size of their future commitment, instead of just this year's cost.

The states are having a hard enough time meeting their pension promises. Falling share prices earlier this decade ate into their pension assets, while generous pledges to increasingly long-lived employees drove up liabilities. By 2004, assets in the average state's pension fund were enough to cover only 84% of its accrued pension liabilities, according to Standard & Poor's (S&P), a rating agency.

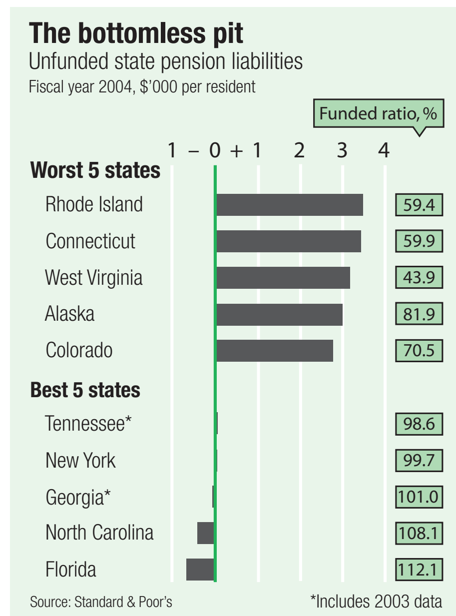
West Virginia has the biggest gap as a percentage; its pension assets are less than half its liabilities. But taxpayers in Rhode Island and Connecticut face the biggest burdens: roughly $3,500 of unfunded pension liabilities per citizen (see chart).

For the 50 states as a group, S&P reckons, the 16% shortfall is equal to $284 billion, almost as large a gain as their combined general-spending debt. Many American cities are in a similar bind. Of the 20 biggest, Philadelphia has the largest shortfall, with funding for only 53% of its pension liabilities.

As hard as it will be for state and local governments to meet public employees' pension costs, paying for their retirees' health care is an even bigger challenge thanks to rapidly rising costs. California, for example, faces $49 billion in unfunded pension liabilities, but believes that its health-care shortfall is another $70 billion. Maryland estimates that its unfunded health-care costs top $20 billion. That is $300,000 per public worker, nearly eight times its pension shortfall.

Chris Edwards and Jagadeesh Gokhale of the Cato Institute, a libertarian think tank, reckon that America's state and local governments face a total shortfall in their health-care plans of $1.4 trillion. They arrive at that staggering sum by extrapolating from 16 states and 11 local government employers that have tried to gauge their health-care liabilities, which amount to roughly $135,000 per state or local employee. Even if Messrs Edwards and Gokhale have overstated the problem, many experts agree that the health-care shortfall is much bigger than the pension gap.

Fortunately for public employers, they probably have more leeway than with pensions to tackle the problem. Courts in many states have issued rulings that make it hard for those governments to break a pension promise to their employees. Health-care plans are less sacrosanct. The sooner public employers start breaking those vows the better. The new accounting rule, though dreaded by some officials, should help—by shedding some much needed light on the problem.



Is Grandma Getting Scammed?

Source: *Business Week*

Eighty-seven-year-old Elizabeth suspected something was awry when her son told her she couldn't afford to move into an upscale assisted living facility. A few years before, she had given her son durable power of attorney—a document granting him fiduciary responsibility to make financial decisions on her behalf as long as she is alive. Elizabeth knew she had the money, and when she questioned him about the shortage of funds, he just told her she was wrong.

Elizabeth, wary of her son's response, told a friend who contacted Pennsylvania's Adult Protective Services (APS). An investigation by the agency revealed that her son had transferred $225,000 from her account into his own.

Tellers at the local bank can be seniors' first line of defense.

WATCH FOR THESE SIGNS

- Banking activity that is inconsistent with the senior's habits, such as unusually large withdrawals or ATM use
- Financial statements sent to an unauthorized address
- Checks written out of their numerical order
- Signature that seems unusual or suspicious
- Abrupt or unexplained change in durable power of attorney
- Allegations of missing funds from a senior's account
- Sudden increase in credit-card activity or a flurry of bounced checks

WHOM TO CALL

National Adult Protective Services Assn.
(NAPSA) naapsa.org (720) 565-0906

National Center on Elder Abuse
elderabusecenter.org (202) 898-2586

Health & Human Services Dept. Administration on Aging
aoa.gov (202) 619-0724

Outstanding

Retired & Making a Difference

By David Dudley, Source: AARP Magazine

"A renowned physician and researcher, Jack McConnell proved to be a terrible retiree. "I never got so bored in my life," says McConnell, whose career achievements include directing the development of the tuberculosis tine test, Tylenol tablets, and magnetic resonance imaging (MRI) technology. "I sat around thinking, 'Is this all I got left?' " It wasn't: after retiring to Hilton Head, South Carolina, to play golf, the pediatrician quickly noticed that a large number of the resort island's low-income residents had no health care. So he started a free medical clinic to serve them, luring recently retired physicians and nurses off the golf course and back to work. "We offer them a way to practice medicine the way they were taught to practice," says McConnell in his honeyed East Tennessee drawl—an unhurried, personal approach that dates to an era before managed care. The success of the Volunteers in Medicine Clinic, which opened in 1994 and last year tallied nearly 30,000 patient visits, speaks both to Hilton Head's doctor-heavy demographics and to the persuasive powers of its founder. (McConnell persuaded South Carolina lawmakers to waive licensing procedures, obtained blanket malpractice coverage for a fraction of the normal rate, and even coaxed local contractors to donate their construction services.) Now, the Volunteers in Medicine Institute is using McConnell's model to build a network of free clinics nationwide; so far it's opened 50 clinics from Washington to Georgia. "Every community in this country has all the resources it needs to operate a facility like ours," says the intrepid physician who at 81 is in the process of starting a clinic in Africa. "But someone has to step up and take the risk."

Medical ID Theft

HOW TO FIND OUT WHERE YOU STAND

- Most patients toss out those "Explanation of Benefits" letters unopened. You should read them carefully to make sure no unauthorized treatment was performed in your name.
- Each year, ask your insurer for a "history of disclosures" from your doctor or insurer. This lists what medical information of yours was disclosed, as well as when, why, and to whom it was given, and can help spot fraud.
- Check your credit report periodically. Some victims learn of ID theft from collection notices for care they didn't get.

WHAT TO DO IF YOU'RE A VICTIM

- File theft reports with both the police and your insurer.
- Contact the Federal Trade Commission, which provides helpful resources on resolving identity theft (877-438-4338 or consumer.gov/idtheft).
- Request a copy of your medical records from your doctor or hospital. If they refuse, file a complaint with the Office of Civil Rights at Health & Human Services (800-368-1019 or hhs.gov/ocr/privacyhowtofile.htm).

Source: *Business Week*

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Report — Street Lights that are Out — to the Power Company!
Report — Weedy Lots — to the Mayor!